



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS  
AUDIT EXAMINATION OF THE  
HARLAN COUNTY CLERK**

**Calendar Year 2000**

**EDWARD B. HATCHETT, JR.  
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**EXECUTIVE SUMMARY**  
**AUDIT EXAMINATION OF THE**  
**HARLAN COUNTY CLERK**

**Calendar Year 2000**

The Harlan County Clerk's 2000 fee audit was completed as of March 28, 2001. The audit revealed reportable internal control and compliance issues as follows:

- The County Clerk Should Publish Her Annual Financial Statement Within 60 Days
- The County Clerk Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

The Clerk's office generated excess fees of \$51,601, which represents net income of the office after paying all operating expenses for the year. Excess fees are payable to the County Fiscal Court. The Clerk has paid \$51,601 to the fiscal court for 2000 excess fees.



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EDWARD B. HATCHETT, JR.  
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky  
Honorable Paul E. Patton, Governor  
T. Kevin Flanery, Secretary  
Finance and Administration Cabinet  
Dana Mayton, Secretary, Revenue Cabinet  
Honorable Joseph Grieshop, Harlan County Judge/Executive  
Honorable Wanda S. Clem, Harlan County Clerk  
Members of the Harlan County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of receipts, disbursements, and excess fees of the County Clerk of Harlan County, Kentucky, for the year ended December 31, 2000. This financial statement is the responsibility of the County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the County Clerk for the year ended December 31, 2000, in conformity with the basis of accounting described above.

To the People of Kentucky  
Honorable Paul E. Patton, Governor  
T. Kevin Flanery, Secretary  
Finance and Administration Cabinet  
Dana Mayton, Secretary, Revenue Cabinet  
Honorable Joseph Grieshop, Harlan County Judge/Executive  
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In accordance with Government Auditing Standards, we have also issued our report dated May 13, 2002 on our consideration of the County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws and regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discuss the following areas of noncompliance:

- The County Clerk Should Publish Her Annual Financial Statement Within 60 Days
- The County Clerk Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a stylized flourish at the end.

Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork completed -  
May 13, 2002



HARLAN COUNTY  
WANDA S. CLEM, COUNTY CLERK  
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES

Calendar Year 2000

Receipts

State Grant	\$	109
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State Fees For Services		14,018
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Fiscal Court		21,954
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Licenses and Taxes:

Motor Vehicle-

Licenses and Transfers	\$	595,355
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Usage Tax		1,488,210
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Tangible Personal Property Tax		1,346,014
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Licenses-

Fish and Game		4,405
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Marriage		11,903
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Deed Transfer Tax		34,802
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Delinquent Tax	477,405	3,958,094
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Fees Collected for Services:

Recordings-

Deeds, Easements, and Contracts	\$	35,413
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Real Estate Mortgages		12,738
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Chattel Mortgages and Financing Statements		74,434
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Powers of Attorney		2,021
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All Other Recordings		29,383
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Charges for Other Services-

Candidate Filing Fees		966
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Copywork	16,270	171,225
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Other:

Postage	\$	782
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Overpayments		10,009
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Usage Correction	123	10,914
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Interest Earned		3,997
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Gross Receipts	\$	4,180,311
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HARLAN COUNTY  
WANDA S. CLEM, COUNTY CLERK  
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES  
Calendar Year 2000  
(Continued)

Disbursements

Payments to State:

Motor Vehicle-

Licenses and Transfers	\$	439,834	
Usage Tax		1,443,089	
Tangible Personal Property Tax		532,784	
Other To State		810	
Licenses and Taxes-			
Fish and Game		4,216	
Delinquent Tax		63,937	
Legal Process Tax		23,064	
		<hr/>	\$ 2,507,734

Payments to Fiscal Court:

Tangible Personal Property Tax	\$	213,431	
Delinquent Tax		79,618	
Deed Transfer Tax		33,061	
		<hr/>	326,110

Payments to Other Districts:

Tangible Personal Property Tax	\$	545,242	
Delinquent Tax		187,597	
		<hr/>	732,839

Payments to Sheriff

12,255

Payments to County Attorney

97,107

Operating Disbursements:

Personnel Services-

Deputies' Salaries	\$	244,927	
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Employee Benefits-

Employer's Share Social Security		22,381	
Employer's Share Retirement		22,154	
Employer's Paid Health Insurance		22,207	

Contracted Services-

Libraries and Archives Grant		109	
Maintenance Agreement		17,037	

HARLAN COUNTY  
WANDA S. CLEM, COUNTY CLERK  
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES  
Calendar Year 2000  
(Continued)

Disbursements (Continued)

Operating Disbursements:  
(Continued)

Election Commissioners	\$	1,200	
Voting Place Rentals		2,350	
Election Tabulators		1,200	
Preparing Tax Bills		4,517	
Materials and Supplies-			
Office Supplies		14,741	
Other Charges-			
Conventions and Travel		3,284	
Dues		1,950	
Postage		5,278	
Telephone		4,103	
Insurance		5,033	
Refunds		10,049	
Miscellaneous		1,609	\$ 384,129
Total Disbursements			\$ 4,060,174
Net Receipts			\$ 120,137
Less: Statutory Maximum	\$	63,542	
Training Incentive		1,394	64,936
Excess Fees			\$ 55,201
Less: Expense Allowance			3,600
Excess Fees Due County for Calendar Year 2000			\$ 51,601
Payments to County Treasurer-			
March 8, 2001	\$	47,000	
April 2, 2001		4,601	51,601
Balance Due at Completion of Audit			\$ 0

The accompanying notes are an integral part of the financial statement.

HARLAN COUNTY  
NOTES TO FINANCIAL STATEMENT

December 31, 2000

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, certain receipts and certain expenditures are recognized as a result of accrual at December 31, 2000.

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employee Retirement System (CERS) pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement System. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.28 percent for the first six months and 7.17 percent for the last six months.

HARLAN COUNTY  
 NOTES TO FINANCIAL STATEMENT  
 December 31, 2000  
 (Continued)

Note 2. Employee Retirement System (Continued)

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement Systems' annual financial report which is a matter of public record.

Note 3. Deposits:

The County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The County Clerk entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of April 7, 2000, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$52,762 of public funds uninsured and unsecured.

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official as of April 7, 2000.

	<u>Bank Balance</u>
Insured or collateralized with securities held by pledging depository institution in the county official's name	\$ 300,000
Uncollateralized and uninsured	<u>52,762</u>
Total	<u><u>\$ 352,762</u></u>

Note 4. Grant

The County Clerk received a local records microfilming grant from the Kentucky Department for Libraries and Archives in the amount of \$109. Funds totaling \$109 were expended during calendar year 2000. The account was closed out in calendar year 2000.

HARLAN COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2000  
(Continued)

Note 5. Health Insurance Premiums

KRS 61.405 allows county fee officials to purchase twelve (12) months of health insurance coverage for their employees, if excess fees are available. Therefore, the expenditures are allowable. The Attorney General has issued opinion 92-108, which claims the statute is unconstitutional and discriminatory. The Attorney General also issued OAG 94-11 on February 25, 1994, stating health or medical insurance provided uniquely for an official and not in connection with a government program providing benefits to all county employees would be personal in nature.

## COMMENTS AND RECOMMENDATIONS





HARLAN COUNTY  
WANDA S. CLEM, COUNTY CLERK  
COMMENTS AND RECOMMENDATIONS

Calendar Year 2000

STATE LAWS AND REGULATIONS AND INTERNAL CONTROL - REPORTABLE CONDITIONS:

1) The County Clerk Should Publish Her Annual Financial Statement Within 60 Days

The County Clerk did not publish her annual financial statement within 60 days after the end of the year. According to KRS 424.220 (6), financial statements are required to be published within 60 days after the close of the calendar year. We recommend the County Clerk comply with KRS 424.220(6).

*County Clerk's Response:*

*Clerk will comply.*

2) The County Clerk Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

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On April 7, 2000, \$52,762 of the County Clerk's deposits of public funds in depository institutions were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the County Clerk require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

*County Clerk's Response:*

*Clerk will comply.*

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REPORT ON COMPLIANCE  
AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





EDWARD B. HATCHETT, JR.  
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Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of receipts, disbursements, and excess fees of the Harlan County Clerk as of December 31, 2000, and have issued our report thereon dated May 13, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Harlan County Clerk's financial statement as of December 31, 2000, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards which are described in the accompanying comments and recommendations.

- The County Clerk Should Publish Her Annual Financial Statement Within 60 Days
- The County Clerk Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Harlan County Clerk's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable conditions are described in the accompanying comments and recommendations.

- The County Clerk Should Publish Her Annual Financial Statement Within 60 Days
- The County Clerk Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable conditions described above are not material weaknesses.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,



Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork completed -  
May 13, 2002

